Comparative Analysis of Islamic Banking Products in Pakistan and Malaysia

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Abstract:
A comparison of the Islamic Banking products offered in the two countries of Pakistan and Malaysia has been discussed in this paper. The research paper uses document analysis to identify different products offered by five full-fledged Islamic banks in Malaysia and Pakistan. It is evident from the research that Islamic banking sector in Pakistan is not tapping its full growth potential as in case of Malaysia. It is also concluded that the trade financing and asset financing products offered by Islamic banks in Malaysia are more diverse than the products offered by its counterparts in Pakistan. The paper gives insight to the Shariah complaint board to introduce new products while learning from the experience of other countries. This research does not focus on investigating the reasons behind these differences; however, it initiates a discourse in this direction.
Key Words: Islamic Banking Products, Document Analysis, Pakistan, Malaysia, Modes of Financing, Trade Financing.

Introduction:

Islamic economic system is governed by the *Sharīʿah* rulings mainly related to freedom from paying and charge of interest and excessive uncertainty in financial transactions[1]. Currently 75 countries, mostly Islamic countries have Islamic financial institutions. These institutions work either as Islamic banks or non-banking financial institutions such as Islamic investment companies. These institutions compete with conventional counterparts in attracting deposits aimed to be invested in profitable investment opportunities, mostly without pre-defined interest rates[2].
Islamic financial institutions, particularly those in Islamic countries, are graced with inspiring growth[3] because of the restructuring of their financial systems, wide-ranging macroeconomic introduction, capital movement liberalization, assimilation of financial markets globally and introduction of innovative and

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need-based Islamic financial products[4]. Islamic markets are in early stage progress and hence require innovative strategies to enhance its deposit base[5].

Islamic banking system is growing in Saudi Arabia, United Arab Emirates, Pakistan and Malaysia. The most successful experience in Islamic banking system is that of Malaysia and this may be because of its comparatively fast growing economy. Malaysia has by far the best POS coverage of all. The GDP in PPP per capita in leading range of Muslim countries. The comparative GDP divided by population is higher than Muslim Countries like Sudan and Iran. Furthermore Malaysia has moved away from agriculture[6]. Islamic banking system is introduced in Malaysia as a result of 1983 Act of Islamic banks Malaysia. Bank Islam Malaysia Berhad was established as the first Islamic bank under the same act[7]. Malaysian Bank of Negara is entrusted as a result of this act to regulate and to supervise the Islamic Banks[8].

Pakistan has started the Islamic banking system in 1977[9]. The growth of this system is encouraging in recent years; however, the same system in Malaysia has flourished manifold as compared to Pakistan[10]. In Pakistan, though the legislature of Islamic banking has been done prior than that of Malaysia but still the Islamic banking system in Pakistan, is facing challenges, partly, due to static regulatory framework from 1980-2012[11]. This paper investigates the question of what differences do exist in the two countries i.e. Malaysia & Pakistan's Islamic banking products. The differences will enhance the knowledge of how Islamic banking as phenomenon could operate differently in different locations and how successful and the best industry practice of one country can help in developing the system in another country. For this purpose, a sample of five full-fledge Islamic banks from each country is selected using document analysis.

The lay-out of the paper is as follows. Section one provides a brief introduction followed by Islamic contract as per *sharīʿah* in section two. Section three covers various Islamic banking products offered in both countries along with relevant literature. For this purpose, the products are divided into two categories i.e., Trade Financing Products and Asset Financing products. Section three is about Literature review. Section four discusses methodology followed by the findings of the study in section five, section six explains the limitations of the study and section seven concludes the paper.

1. Background of Islamic Banking: Malaysia v/s Pakistan:

The leading countries in Islamic banking system are Saudi Arabia, United Arab Emirates and Malaysia. Being an emerging economy, Malaysia is having a very prosperous experience of Islamic banking system while Pakistan is still on its way to improve the sector[12].The asset hold by Islamic banks in Pakistan amounts are PKR. 1089 billion or around USD 11 billion[13] while that of Malaysian Islamic banks is USD 65.6 billion.[14] This is also one of the contributing reasons that Islamic banking is performing well in the latter.

1.1 Islamic Banking in Pakistan:

Pakistan has initiated the Islamic banking system in 1977. In Pakistan, the regulatory framework for Islamic banks has been established prior to Malaysia but the growth was not achieved because of challenges such as unavailability of *Sharīʿah* experts and very static nature of the regulatory framework [15].With its

promising prospects and potential, Islamic banking system will need to grow at least by 40-50% annually to be able to raise its share from 3.5% to about 15% of the total banking system[16].

1.2 Islamic Banking in Malaysia:

Malaysia started working for the promotion of Islamic banking in 1980,in a seminar held at National University of Malaysia. A resolution was passed that the government should approve a special law for setting up Islamic Bank[17] .In response to the request, the government has set up a National Steering Committee in 1981 to study legal, religious and operational aspects of an Islamic bank. The committee established the blue print of a modern Islamic banking system in 1983, which later enabled the government to establish an Islamic bank and to issue non-interest bearing investment certificates[18].Malaysia was successful in growing Islamic banking mainly because of its growing economy[19]. Islamic banking system was introduced in Malaysia as a result of 1983 Act of Islamic banks in Malaysia. Bank Islam Malaysia Berhad was established as the first Islamic bank under the same act. Malaysian Bank of Negara is entrusted as a result of this act to regulate and to supervise the Islamic Banks[20].

2. Islamic Banking Products and Islamic Finance Contract:

Islamic banks offer variety of products through *Sharīʿah* process Flow to facilitate their customers. Some of the products are briefly explained below along with their *Sharīʿah* grounds. However, it is pertinent to give relevant literature about the different contracts which can be used in launching different Islamic banking products.

2.1 Islamic Finance Contracts:

According to Kharofa[21], the word **‘***aqd* (contract) in Arabic language means tying tightly, as tying a rope. Arabs used the word to speak about firm belief or determination. They used to say ***‘aqd ul yāmin*** to mean ‘give an oath’. Along the same line is ***‘aqdat ul nikāh*** meaning a marriage contract[22]. The word ***aqd*** also carries the meaning of obligations as used in the first verse of *Sūrah al-Maida.*

O ye who believe! Fulfil your obligations.[23] (*Al-Quran*).

In Islamic jurisprudence the word contract is used to mean an engagement and agreement between two persons in a legally accepted, impactful and binding manner[24].

In Islamic banking, banks use or adopt various business contracts from Islamic literature and use these contracts as legal basis for their products commonly known to be Asset Financing in Banking Industry. The commonly used contracts are as follows.

2.1.1. *Murābahah:*

There are three types of sale i.e., *Murābahah* (Sale at profit with cost disclosed), *Wadi'ah* (sale at specified loss) and *Tawliyah* (sale at cost). *Murābahah* refers to sale in Islamic *Sharīʿah* where the cost is clearly declared. In this, one party purchases an asset and resells it to another party on deferred payment basis including cost of the asset plus profit margin. Banks uses *Murābahah* transactions to fulfill the needs of its clients in asset, working capital financing, project financing, trade, and import/export financing etc.[25]

2.1.2.*Ijārah:*

Ijārah in Islamic *Sharīʿah* means giving something on rent[26]. It is defined as the possession of the right to use usufruct of the property in return for some consideration [27].Under this transaction an asset (including commercial vehicles, equipment etc.) is purchased by the bank on customer demand which in turn is leased to the customer on rent agreed by both parties. *Ijārah* has two types namely Operating *Ijārah* and Financial *Ijārah* (*Ijārah Muntāhia Bittāmleek*). The first one involves acquiring an asset on rent without any promise to purchase the asset whereas the latter includes the promise that at the completion of the lease term, the asset will be re-purchased. Islamic banks mostly use the second type, in which customer pays the lease amount periodically that includes the asset's original cost and bank profit margin at an agreed ratio and ownership of the asset is then passed to the client at the completion of the *Ijārah* period[28].

2.1.3. *Bai' Muājjāl:*

The term *Bai Muājjāl* is used in Islamic transactions for credit sale[29]. Under this transaction the commodity is purchased according to the specifications of the client from a third party and after taking the possession/ownership of the asset, the bank resells the asset/commodity to the client on credit basis i.e., cost plus profit including fixed deferred installments or payment at some future date. Here the client promises the bank for purchase of the commodity from the bank and provides pledge/mortgage. It is different from the Interest Based Bank in a way that first of all the Islamic bank takes the ownership of commodity and then gives it on credit/deferred payment to the customer. The Difference between *Murābahah* and *Bai'Muājjāl* is that in the former, the cost price has to be disclosed to the customer while in the latter it is not necessary. The second difference is that *Murābahah* can be done on the spot while *Bai'Muājjāl* cannot be done on the spot[30].

2.1.4. *Bai' Salam:*

Bai' Salam means buying and selling in advance like forward sale. It is a sale transaction under which the seller undertakes to provide a commodity in future in return of the price fully received in advance from the buyer[31]. Under *Sharīʿah* the quality, quantity and specifications of the commodity must be fully declared at the time of entering *Bai' Salam* contract leading to uncertainty. The price of commodity must be fully paid in advance. *Bai' Salam* is prohibited the sale of commodities that are ready for on the spot sale[32]. Banks enter *Bai Salam* agreement to fulfill the financing requirement of client enabling him to sell his commodity deliverable in some future date in return of the price fully received on the spot. The client (producer of good/manufacturer/seller of the good) can be assigned onward sale of the goods by engaging him as bank agent according to a separate agency agreement.

The Holy Prophet (PBUH) allowed *Salam* subject to certain conditions. The basic purpose of this sale was to meet the needs of the small farmers who needed money to grow their crops and to feed their family up to the time of their harvest. After the prohibition of ***Ribā*** they could not take usurious loans. Therefore, it was allowed for them to sell the agricultural products in advance[33].

In *Salam*, the seller receive advanced full payment/spot price in cash from the buyer of the commodity on behalf of the promise to supply the commodity in

future. The concept of *Salam* is introduced in Islamic bank to the inhibition of forward sale which is strictly prohibited in Islam[34].

2.1.5. *Istiṣnāa:*

*Istiṣn*āa means asking someone to construct or manufacture [35]. Physical possession of the commodity with the seller who is intended to sell it, is obligatory for Islamic transaction except two cases which are *Salam and Istiṣnāa‘‘*[36]. *Salam* is a contract usually used for the financing of agriculture goods while *Istiṣnāa‘‘* is used for financing of construction/manufacturing of roads, schools, power plants, factories, hospitals, building and residential developments[37]. Bank uses *Istiṣnāa* to fulfill the financing requirements of its clients. Under this contract, the bank undertakes to manufacture or construct the required asset for the client and the customer signs the contract to pay for the construction either in installment or after the delivery of the asset to the client. The buyer (client) can cancel the contract before the seller (bank) starts construction. But once the construction gets started then none of the party can cancel the contract unilaterally[38].

2.1.6. *Diminishing Mushārakah:*

According to this concept, the bank and the client participate either in joint ownership of a property or an equipment or in a joint commercial enterprise. The share of the financier is further divided into units and an undertaking is taken from the customer to purchase shares at different time intervals until the ownership transfers from bank to the client. In the Muslim world, normally house financing is done through *diminishing mushārakah* under Islamic Banking [39].

2.1.7. *Wakālah:*

It's a non-binding contract in which one party is delegated to act on its behalf by another party. The three elements involved in this agreement is Agent, Principal and the Subject Matter. This agreement expires either by the death of any party, or any party revokes it or the agent completes the task for which he is made agent[40].

2.2 Trade Financing Products and Asset Financing Products:

The following products have been selected for analysis: firstly, Trade Financing Products and then Asset Financing Products. It is important that banks issue these products on the basis of different contracts (discussed in section 3.1).

2.2.1 Trade Financing Products:

2.2.1.1 Letter of Credit

It is a written oath provided upon request of the applicant or buyer, for payment of a particular amount of money by an Islamic bank in writing to the buyer/seller[41].The terms in the letter of credit must be fulfilled by the seller. Letter of credit issued under *Wakālah* and financed under *Murābaha*[42]. L/Cs are widely used in financing foreign trade to guarantee payment to a supplier after shipment. They carry a risk for the issuing bank in case the bank makes a payment under the L/C and the client defaults. Therefore, before issuing an L/C, the bank assesses the client's financial position to determine whether the client's credit worthiness merits the risk taken by the bank on the client's ability to pay. The bank may even consider taking a security to minimize any potential loss[43].

2.2.1.2 Trade Working Capital Financing:

It is a facility in which domestic and international trades are financed and letter of credit is provided. This mode of trade financing is provided fully in the form of an LC instrument negotiated from foreign countries as requested by an eligible customer. Letter of credit can either be on *Wakālah, Murābahah, or Mushārakah* basis depending on the demand of the customer. The total importation cost plus a pre-arranged profit is then repaid to the Islamic bank upon resale by the bank of the imported item[44].

2.2.1.3 Accepted Bills:

To finance domestic selling and buying or export/import, an accepted bill can be drawn[45]. Islamic Accepted Bills are traded on the basis of *Murābahah* and *Bay' al Dayn* concepts similar to the other financial instruments such as Green-bankers acceptances, Islamic mortgage bonds and Islamic private debt securities.

2.2.1.4 Exchange Purchased Bill:

This facility of financing offered by Islamic Bank to its clients in which the bank purchases the customer arising debt of the outward bill for collection under open account or drawn against export letter of credit. This product can be either on the basis of *Wakālah or Murābahah.*

2.2.1.5 Export Credit Refinancing:

It includes pre-shipment and post-shipment financing. The former is financing facility offered to exporters to prepare goods before shipment and the later is extended to direct exporters who export products on sight. Export Credit Refinancing will be done initially through *Murābahah* followed by *Tawarruq,*

2.2.1.6 Shipping Guarantee:

In this financing, the shipping company is assured by bank for the release of goods on the basis of *Wakālah* to the importers or buyers devoid of original bill of lading presentation[46].

2.2.1.7 Banking Guarantee:

It is not a financing source rather a fixed undertaking by the bank as agent to guarantee enactment or financial standing of its customer.

2.2.1.8 Bilateral Payment Arrangements:

It's a plan for the disbursement of net monetary commitments resulting from trade between pairs of countries.

2.2.1.9 Cash Line:

The client cash flow is eased by this short term financing facility by financing the working capital requirement through *Running Mushārakah.*

3. Literature Review:

Islamic banking is growing geographically, in product lines, and in volume[47]. The worldwide size of Islamic financial services is US $2.20 trillion with 500 institutions operating in more than 131 countries[48].The issuers and practices of Islamic banks should be alike as they are based on the same Islamic principles and *Sharīʿah* but there exists lack of homogeneity and standardization amongst Islamic banks in organizing the allocation of financing which makes complications for comparative analysis[49]. The difference of opinion given by different *Sharīʿah* committees creates contradictions and doubts for customers.

Al-Mubarak & Osmani argued that despite the success of Islamic banking people minds are skeptical about compliance of the Islamic products to *Sharīʿah* requirements and interest free banking services[50]. The paper scrutinizes some of the existing banking products and practices in the lights of *Sharīʿah* principles and recommends that some of the banking products like *Bai' 'Bithāman Aājil (BBA*) and *Ijārah Sukuk* should be carefully revised as *Ribā* free products and these are according to *Sharīʿah* Principles. Authors argue that thorough examinations of the products clarify the non-confirmatory of many banking products offered by Pakistani and Malaysian banks to *Sharīʿah* required standards. For promoting economic development and growth, Muslim economist supports equity based instruments but most of the Islamic banking products range from *Bay'al Dayn* Islamic credit cards with *Bay' al-'īnah* and *Tawarruq* contracts which has been turned into a challenge to come up with not only Islamic but also *Sharīʿah*' conforming products. For example, the profit rates of BBA contracts of home and car financing are similar to interest rates and is even higher than interest rates charged by conventional banks on loans; moreover, the banks do not take risk as it holds the property for few minutes or less neither the choice is given to customer in case of default which violates "*Al-khārāj u bil-dhāmān*" principle i.e The right to derive benefit from asset if one assumes the responsibility for its maintenance. and turn it to *Ribā*[51]

A floating rate is approved by Central Bank of Malaysia where monthly installments are paid by customer on higher end but gets return on the existing market interest rates. The indolent of BBA in *Bay'al-'īnah* contract is widely practiced. It is still hugely criticized by many scholars including Malaysians.

Comparative study of Islamic banking practices done by Sudin[52] evaluates the providing deposit facilities, Islamic banks do not follow the homogeneous standardized *Sharīʿah* principle. For example Malaysia follows principle of *al-wadi'ah-yad-dhāmanāh* (or guaranteed custody) to manage the saving accounts. While in Pakistan saving accounts are operated on the principle of *Mudhārabah*. However, all the investment accounts in all Islamic banks globally are operated on the principle of *Mudhārabah.*

Banking facilities offered by Islamic banks varies in different countries for example BIMB in Malaysia, KFH in Kuwait and DIB in United Arab Emirates provide the facility of letters of guarantee. Whereas BMI (Iran), MCB (Pakistan), IBBL (Bangladesh) and JIB of Jordan concentrate on letters of credit facilities[53]. In the Islamic financial system the Islamic laws of contract are very essential because they provide guidelines and principles to carry all business transactions. Certainty of contract is an important principle of Islamic contract under which any agreement leading to uncertainty and ambiguity is considered void because it can lead to quarrel between the contracting parties. Some of the *Sharīʿah*principles known as *Fiqh* are interpretation and derivation of the scholars from the basics of Islam (i.e., *Quran, Sunnāh and Hadith*), so there can be difference of opinion among different *Sharīʿah* scholars. The researchers found out that principles and rules mentioned in Islamic law of contracts must be followed for dealings. Contractual certainty is one of them which may hold void the contract under *Sharīʿah* which is ambiguous, uncertain and can lead to dispute. Some principles mentioned in the contract are derived from *Sharīʿah* scholars, interpretations and *fiqh* as set out in *Quran*.

The views of *Sharīʿah* intellectuals differ on permitting different modes of financing like *Bai‘ al Dayn* (trading of debt), *Hibah* (Gift) given on current accounts, *Tawarruq*, Commodity *Murābahah*, *Bay‘al-‘īnah* facility of deposit etc. The principle of *Qard* (Loan) is practiced in Bangladesh, Kuwait and Pakistan for operating their current accounts while the principle of *Wad'iah* (Provide guaranteed safe custody) operates the same accounts in Indonesia, Malaysia, Bahrain and Brunei etc[54].

Sharīʿah principle of *al-wadi'ah-yad-dhāmanāh*(guaranteed custody) runs the saving accounts in Malaysia whereas *Mudhārabah* principle is used for running saving accounts in United Arab Emirates, Bangladesh, Kuwait and Jordan etc. Investments accounts in all Islamic countries are run by *Mudhārabah* principle only [55]

Although functioning on *Wadi'ah* or *Qarḍ-e- Hasana* principle, return guarantee of full amount of deposits of customer is given by Islamic banks but no such guarantee is provided for accounts operating under *Mudhārabah*. The return given by an Islamic bank in Iran and Malaysia on saving accounts is based on the mutual understanding between the bank and the customer, as nothing can be fixed in advance for return which can be in the form of profit on investment of bonuses[56].

Malaysia gives profit on saving accounts which are somehow similar to conventional bank like minimal amount requirement for deposit, closing account, stop payment of cheques and so on. On the other hand, principle of *Murābahah* and *Wakālah* is used for proving letters of credit in Dubai Islamic Bank (UAE bank), Jordan Islamic Bank (Jordan), Foreign Financial Institutions (Turkey), Faisal Islamic Bank (Bahrain) and Islamic banks of Pakistan[57].

Bank Islam Malaysia Berhad of Malaysia also offers letter of credit by *Mushārakah,* in which under mutual agreement, the client deposits some amount of money before goods are imported and after the deposit, LC is provided to him using both the bank ;and client/customer fund. After selling the goods, the client returns the bank fund along with the bank's profit share in sale. This paper uses document analysis to tease out the different products offered by Islamic banks in Pakistan and Malaysia.

4. Methodology:

A comparative study of the products offered by the full-fledge Islamic banks of both the countries is performed by closely examining, evaluating, comparing and exploring of the current norms, regulations, standards, and school of thoughts followed by Islamic banking in order to understand the product description and its *Sharīʿah* basis. The comparative study is done using the technique of document-analysis. Document-analysis grips the reading of written materials, analyzes them and bestows the researcher with useful background data. It is an important research tool for getting inclusive information that already exists and provides insight to what people think, do and is used for validation, justification and exploration of the data. Document analysis is the process of analyzing data containing required information [58]. The documents are the annual reports of the Banks under study and their updated webpages along with the financial reports by State Bank of Pakistan and Bank of Negara Malaysia. For this purpose, five

full-fledge[1] Islamic banks are selected from Malaysia – Bank Islam Malaysia Berhad, Bank Muamalat Malaysia, Kuwait Finance House Malaysia, Asian Finance Bank, Bank Al Rajhi Malaysia and Five full-fledged Islamic banks are considered as sample in Pakistan – Meezan Bank, Bank Islami Pakistan, Al-Baraka Bank Pakistan, Dubai Islamic Bank Pakistan and Burj Bank Pakistan..

5. Findings:

This section details the comparative analysis of products offered in sample banks in both countries. The first section gives details about the comparative analysis of banks using trade financing products and the second part compares the products on assets-based financing products.

5.1 Trade Financing Products

5.1.1 Letter of Credit:

Al-Rajihi bank in Malaysia offers letter of credit based on "*Wakālah*" contracts. Kuwait Finance House Malaysia, Bank Muamalat Malaysia, Asian Finance Bank and Bank Islami Malaysia offer letter of credit under "*Wakālah*" and finance the same under "*Murābahah*" contract.

In Pakistan, Dubai Islamic bank Pakistan offers import letter of credit under "*Murābahah*", while the exports letter of credit under "*Wakālah*". Meezan Bank Pakistan offers two types of letter of credit for importers i.e., usance letter of credit and sight letter of credit. The former is based on "*Mushārakah"/"Mudhārabah*" and the latter is based on "*Murābahah*". Al-Baraka Bank Pakistan offers letter of credit.

5.1.2 Shipping Guarantee:

Al-Rajihi Bank Malaysia, Bank Islami Malaysia Berhad, Asian Finance Bank Berhad and Kuwait Finance House Malaysia offers shipping guarantee under "*Kafālah*" contract for expedite delivery of the shipped goods to the customer to save time. Bank Muamalat offers shipping guarantee based on "*Kafālah*" and "*Al-Dhamāanah*".

The same product is not offered by any full-fledged Islamic bank in Pakistan.

5.1.3 Bank Guarantee:

Al-Rajihi Bank Malaysia offers bank guarantee under "*Wakālah*". Bank Islami Malaysia Berhad offer the same product under "*Kafālah*". Bank Muamalat offers the bank guarantee based on "*Kafālah*" and "*Al-Dhamāanah*". ". Asian Finance Bank Malaysia and and Kuwait Finance House Malaysia offer the same product under "*Kafālah*".

In Pakistan, Meezan Bank and Al-Baraka Bank offer the Bank Guarantee under the name "letter of guarantee". Dubai Islamic Bank and Burj Bank offers the same product under "*Kafālah*".

5.1.4 Trade Commodity Financing:

In Malaysia, Al-Rajihi Bank offer the trade commodity financing based on "*Murābahah*". Kuwait Finance House and Bank Islami Malaysia Berhad offer

[1] Full-fledged refers that a bank is only dealing in Shariah Complaint banking, we did not consider conventional banks with Islamic products window.

the same product under the name of "Kuwait Finance House*Murābahah* Working Capital financing" and trade working capital financing respectively. Arab Finance House offers this product under of name of "*Tawarruq* Trade Working capital financing" based on "*Tawarruq*" which facilitates *Murābahah* transactions. Bank Muamalat Malaysia offers the working capital financing under "*Murābahah*" and "*Bai' Dayn*".

5.1.5 Bill of Exchange Purchase (Financing for Sight/ Usance Bills):

Both Bank Muamalat Malaysia and Bank Islami Malaysia Berhad also offer "Bill of Exchange Purchased for financing sight and usance bill" based on "*Bai'Dayn*". In Pakistan, Al-Baraka and Meezan bank offer the same product for financing exports on the basis of "*Salam*" (for sight bill purchase) and "*Murābahah*" for usance bill purchase.

5.1.6 Other Trade Financing Products:

Different products are offered related to trade financing under different names by different banks in both Malaysia and Pakistan. Kuwait Finance House in Malaysia offers a documentary collection product for channelizing the shipping documents upon the request of applicant. The said collection document can be either document against payment or document against acceptance. Bank Muamalat Malaysia offers Accepted Bills for sale financing sale/export on "*Bai'al Dayn*" in which a debt is sold by the client that arise from trade and services transaction at a discount price to the bank on deferred payment while the same product is offered by Bank Islami Malaysia Berhad on *Murābahah* Basis. Bank Islami Malaysia Berhad offers export credit financing facility under "*Bai' Dayn"/ Murābahah*, cash-line product and "Bilateral Payments Arrangement". Similarly it also offers "Domestic and Foreign outward/inward Bill for Collection" (sight and usance) based on "*Bai' Dayn*".

In Pakistan, Al-Bakara and Meezan bank offer export bills for collection.

Keeping in view the above comparison, it can be stated that there is more versatility in products offered by Malaysian banks to facilitate international and local trade. Though in most cases if the same products are offered by both the banks like letter of credit for instance, the *Sharīʿah'* basis is more or less the same.

5.2. Asset Financing Products:

5.2.1. Project Financing:

In Malaysia, Al-Rajihi, Bank Muamalat and Bank Islami Malaysia Berhad offers project financing product under "*Istiṣnā'*Kuwait Finance House Malaysia offers the same product with the flexibility to be based on"*Mushārakah*", or "*Murābahah", or "Mudhārabah", or "Ijārah/Ijārah Muntahiah Bi Tamleek", or "Mushārakah Mutanaqisah", or "Istiṣnā'*.

In Pakistan, Meezan bank offers project financing products based "*Diminishing Mushārakah*" and "*Ijārah*". Dubai Islamic Bank (Pak) offers the same product. Al-Baraka Bank offers the same product based on a variety of *Sharīʿah '* complaint solutions. Burj Bank on the other hand does not offer any such project.

5.2.2. Equipment and Commercial Property Financing:

In Malaysia, Al-Rajihi bank and Kuwait Finance House Malaysia offer asset financing. Bank Islami Malaysia Berhad and Bank Muamalat Malaysia offer this product based on *Bai' Bithaman Ajil*(BBA). Arab Finance House offers capital goods financing product for financing goods, equipment and machinery etc. based on *Ijārah* (leasing), *Ijārah Muntahiya Bitamlik* (leasing ending with ownership), *Murābahah and Istiṣnā‘‘* (Order Sale). Similarly, it offers asset purchase financing for purchase of land, buildings etc. based on *Mushārakahh Muntanaqisah* (Diminishing Co-ownership Joint Venture),*Istiṣnā‘’, Ijārah Muntahiya Bitamlik and Murābahah.*

In Pakistan, Al-Baraka bank offers the working capital finance through *Murābahah, Salam and Istiṣnāa* and for long term requirements, it offers *Diminishing Mushārakah and Ijārah* for purchase of plant & machinery and Vehicles.

5.2.3. Business/ Working Capital Financing:

In Malaysia, Al-Rajihi bank and Kuwait Finance House Malaysia offer working capital flows and working capital financing respectively and so is the Arab Finance House under working capital financing to finance business. In Kuwait Finance House Malaysia it is based on *Mudhārabah and Mushārakahh*.Bank Islami Malaysia Berhad offers the same product under *Istiṣnā‘‘.* The bank Muamalat offers the same product under the name of working capital.

In Pakistan, Meezan bank offers working capital product based on *Istiṣnā‘‘ and Murābahah*. Al-Barak bank offers the same under *Murābahah, Salam and Istiṣnā‘‘.*

5.2.4. Working Capital Financing for the Purchase of Raw Materials and Goods

In Malaysia, Al-Rajihi bank offer this product for purchase of materials for manufacturing of goods. Bank Islami Malaysia Berhad and Kuwait Finance House Malaysia do not offer such a product. Bank Muamalat offers working capital financing based on *Murābahah* to purchase stock, goods, inventories etc.

In Pakistan, Al-Baraka Bank offers financing products based on *Murābahah, Tijārah and Istiṣnā*" to purchase raw materials for the manufacturing or trade in the customer goods. Meezan Bank offers the same product as short term financing for purchasing of raw materials or trading in goods based on *Murābahah and Istiṣnā‘‘.*

5.2.5. Contract Financing:

In Malaysia Al-Rajihi bank and Kuwait Finance House Malaysia offers contract financing and so is the Muamalat bank based on *Istiṣnā‘‘* for financing contracts awarded by government or other reputable bodies. The Kuwait Finance House Malaysia offer is based on a number of *Sharīʿah*’ complaint products. Contract financing is not offered by any full-fledged Islamic bank in Pakistan.

5.3. Investment Banking:

In Malaysia, the full-fledge Islamic banks offers the financial advisory and related services. Kuwait Finance House Malaysia offers investment banking. The primary services being offered evaluate potential investment opportunities, structuring and originating transaction tailored for the client financial solutions.

Bank Islami Malaysia Berhad offers corporate investment banking with wide range of services that include, corporate advisory and fund raising services through its corporate finance, corporate banking department and debt capital market which are respectively covered by equity capital market, bank market and debt capital market. Bank Muamalat offers corporate advisory and consultancy services in addition to Islamic capital market. The Islamic capital market is a global financing mode aimed at rising capital services.

In Pakistan, the full-fledge Islamic banks introduce investment banking departments. Mainly these departments provide consultancy services for financial solutions of their clients. The main objective is to assist the client in pursuing the financial goals. Meezan Bank offers structured finance, project financing and consultancy as its key services of this department. Similarly Al-Baraka bank offers advisory, structuring and special role (private equity, trusteeship, access to regional financial markets) as its key services. Bank Islami and Dubai Islamic bank Pakistan offers the services of private placement, advisory, *Sukuk* arrangement, project financing, structured finance and syndication, trusteeship, listing on capital markets and underwriting.

6. Limitation:

This research does not focus on investigating the reasons behind these differences; however, it initiates a discourse in this direction. Furthermore, the study is limited to only two countries with a sample size of five Islamic Banks only, the same can be enhance to more number of countries and more Islamic banks.

7. Conclusion:

The paper compares various Islamic banking products offered in both countries. The following conclusions drawn are based on the document analysis of different publications by five full-fledge banks from each, Malaysia and Pakistan. Firstly, the diversity of products offered by Islamic banks in Malaysia is compared to Pakistan. Secondly, in banking industry the international trade financing plays an important role in its growth. Malaysian banks offer more products for financing these with multiple Islamic bases, in some cases as compared to the Pakistani banks. Thirdly, Asset financing is done for a variety of assets by Malaysian banks while in Pakistan the Islamic banks do offer these products but with limited versatility.

The study focuses on document analysis of secondary data of various publications by Islamic banks in both countries. Future research can be done using interviews with major stakeholders in Islamic banking industries of both countries to tease out the various reasons behind such differences.

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